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From: Larry Schafer
Sent: Fri 6/13/2014 4:18:26 PM
Subject: Follow up on Jennifer Case from yesterday's meeting ...

This following story was published today ... thought you would be interested.

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The San Diego Union-Tribune

AN INDUSTRY STUCK IN IDLE

EPA's reconsideration of renewable-fuel quota impeding future of California's small biodiesel operations

By Morgan Lee 5:12 a.m. June 13, 2014

Just six months ago, the future burned bright for a Barrio Logan refinery that collects used cooking oil from hundreds of San Diego-area restaurants and turns it into motor fuel for standard diesel engines. New Leaf Biofuel was on pace to produce 5 million gallons a year — the outcome of years of planning, a hiring spree, state grants and more than \$1 million in private investment. The company provides fuel to military bases, San Diego city and county governments, and hundreds of school buses at the San Diego Unified School District.

Those vaunted ambitions have been put on hold, however, as the Environmental Protection Agency reconsiders how much renewable fuel can be mixed into the supply chain that ends in gas tanks across the nation.

The agency has proposed keeping last year's quota for biodiesel — 1.28 billion gallons — through 2015, and sharply reducing additional allowances for biodiesel under "advanced" biofuels that are proven to reduce greenhouse gas emissions by 50 percent.

Last year, the biodiesel industry produced nearly 1.8 billion gallons, and had been poised to expand.

The new biodiesel quotas are part of a larger debate over whether to reduce the total set-aside for renewable fuel — a market dominated by corn-based ethanol.

The EPA intends to ward off a collision with the "blendwall" — the disputed point at which an increased concentration of non-fossil biofuel threatens to become incompatible with older car engines and fueling stations. A gallon of U.S. "gasoline" typically contains 10 percent ethanol — the limit for cars manufactured before 2001.

The blendwall, whether concrete or conjured, is a symptom of the shrinking market for gasoline and diesel, a consequence of more-efficient vehicles and long-term economic and cultural trends.

A surge in domestic oil production, meanwhile, has blunted concerns about dependence on foreign oil that prompted the introduction of escalating renewable fuel quotas under President George W. Bush.

The EPA proposal would reduce the overall renewable fuel mandate at 15.21 billion gallons in 2014, down from 16.55 billion gallons in 2013. A final decision could come this month.

That panorama has pitted crude-oil refiners against corn-belt distilleries in a high-stakes lobbying battle.

Caught in crossfire

California's small biodiesel operations, which take a bite out of local pollution and carbon emissions, may become an unintended casualty of that bare-knuckles fight between Big Oil and Big Corn, according to Jennifer Case, CEO of New Leaf Biofuel.

In physical terms, biodiesel production has ample room to grow in the U.S. without hitting the diesel vehicle blendwall — a 5 percent biodiesel concentration.

But Case says the EPA proposal already has undermined the market price for renewable fuel credits — known as RINs, or renewable identification numbers — that define the bottom line for biodiesel producers.

Layoffs, pay cuts and idle production hours have ensued at New Leaf.

Nearly 80 percent of U.S. biodiesel producers have scaled back production this year and workforce reductions are widespread, according to a survey by the National Biodiesel Board in Washington, D.C. The trade group attributes the downturn to both the EPA proposal and uncertainty about renewal of the federal biodiesel income-tax credit, worth up to \$1 a gallon, which expired at the end of 2013.

"There is simply no financial benefit to turning cooking oil into biodiesel right now, and if we don't stop making fuel, we will run out of cash by Sept. 1," Case wrote to a congressional official in Washington in advance of a face-to-face meeting. "Not only is this devastating emotionally for us and our employees, from a financial standpoint, it's such a waste."

Oil lobby backs EPA

In the name of oil importers and refiners, the American Petroleum Institute and American Fuel & Petrochemical Manufacturers contend that the health of the U.S. economy is in jeopardy without a waiver to reduce renewable fuel volumes.

The oil lobby has applauded the EPA proposal and asked it to reduce renewable set-asides further.

Refunds, it says, are due to businesses that bought credits for cellulosic ethanol (made from corn stalks but not corn itself) that never materialized.

Cost-effective production of cellulosic ethanol would defuse competition between renewable energy and food production, but the U.S. is only slated to produce 17 million gallons this year, equal to about 0.01 percent of the nation's fuel supply.

In the predawn hours, van-sized tanker trucks fan out across San Diego to suction off used cooking oil from drums positioned outside restaurants and taverns.

The oil is refined into both biodiesel and glycerin by New Leaf at an industrial lot on Newton Avenue, previously home to a propeller maker for nearby shipyards on San Diego Bay.

Here and across the state, California energy regulators have funneled more than \$100 million in public funding into the fledgling renewable fuel sector — with more than \$30 million dedicated to biodiesel. The grants from the California Energy Commission continue at a pace of \$20 million a year.

By law, the commission does not fund biofuel refineries for traditional corn-based ethanol — a response to unacceptable emission levels when consideration is given to energy expended on farming and lower fuel economy for vehicles running on ethanol.

The local biofuel sector also is underwritten by the state's low carbon-fuel standard and an emerging cap-and-trade market for pollution permits. Those programs are part of the state's push toward reducing greenhouse gas emissions to 1990 levels by 2020.

The California Energy Commission and the Air Resources Board have urged the EPA to maintain or expand quotas for biodiesel and advanced biofuel, to protect the state's own investments in more than 25 related projects.

Growing pains

State grants include a \$2.6 million award in 2013 to Buster Biofuels in Escondido, which broke ground in October on a biodiesel refinery.

Founder and CEO Buster Halterman, an accomplished professional skateboarder from Leucadia, is lining up high-profile customers, including a deal to fuel lawn mowers for the San Diego Padres with a 20 percent biodiesel mix. More than 1,000 restaurants are expected to provide used cooking oil.

Halterman was optimistic about the future of small-scale biodiesel providers, based on margins between used cooking oil and biodiesel, along with California's incentives. "Every industry has its challenges and growing pains," he said. "I think boutique biofuel companies like us will have some staying power."

Seasoned staff at New Leaf, founded in 2006, describe a more-tenuous business proposition.

Securing used cooking oil can be a juggling act, and New Leaf buys three-quarters of its feedstock through intermediaries at market prices.

The proposed EPA changes, New Leaf CEO Case said, would likely pit recycled biodiesel against biodiesel made directly from soybean oil, along with imported Brazilian sugarcane-based ethanol, whose emissions qualify it for advanced-biofuel status.

Mike Lewis, co-founder of Pearson Fuels, a major distributor of renewable and alternative fuels in California, said the biodiesel industry in particular has been blindsided by the EPA proposal. He knows that public opinion frowns on fuel subsidies of all kinds, but people also want predictable regulations. "A lot of biodiesel businesses built plants and invested based on these regulations," he said. "It wasn't unexpected that the EPA would be questioning the ethanol mandate, but it was unexpected that they would step back on advanced biofuels."

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